

FirstEnergy Solutions Comments on Results of PJM Capacity Auction

NEWS PROVIDED BY
FirstEnergy Solutions →
May 24, 2018, 01:01 ET

AKRON, Ohio, May 24, 2018 /PRNewswire/ -- FirstEnergy Solutions (FES), a competitive generation subsidiary of FirstEnergy Corp. (NYSE: FE), commented today on the outcome of the base residual auction, also known as a "capacity auction," conducted by PJM Interconnection, the regional transmission organization.

"The auction results that PJM announced on Wednesday are as unfortunate as they are unsurprising," said FES President Don Moul. He noted that none of FES's three nuclear plants – with combined capacity of 4,048 megawatts – received a commitment in the auction, and that a total of 7,400 megawatts less nuclear capacity cleared in this year's auction than last year's.

"That is 7,400 megawatts of highly-reliable, resilient, clean nuclear power, the majority of which will be replaced with a mix of generation that is less resilient and more carbon-intensive," Mr. Moul said.

The annual auctions are designed to determine the price of electric power capacity three years ahead of when it is required – to ensure the electric power grid can supply sufficient power during periods of peak power demand in the future. The result of the current auction reveals that there will be "constraints," and thus higher prices, in the ATSI (American Transmission Systems Inc.) zone in Ohio, where FES has announced plans to deactivate two major nuclear power plants – the Davis-Besse Nuclear Power Station, in 2020; and the Perry Nuclear Power Plant, in 2021.

The base clearing price in the auction was \$140 per megawatt-day. The clearing price in the ATSI zone was \$171.33.

"This situation is a call to action for policy makers in Ohio and Pennsylvania to take effective action to support these important base-load nuclear power plants that can and should operate for many years into the future," Mr. Moul said. FES has also announced the deactivation of its nuclear power plant in Pennsylvania, the Beaver Valley Power Station, in 2021. "Other states in the PJM region and elsewhere have developed policy solutions to keep their nuclear plants in operation – most recently, New Jersey," Mr. Moul said, adding, "FES is committed to working with policy makers to find creative solutions to make this happen in Ohio and Pennsylvania as well."

PJM has previously stated that the deactivation of the FES nuclear power plants in Ohio and Pennsylvania will have no effect on the reliability of the electric power grid to provide sufficient power when needed. "While that finding may address the mere availability of bulk power sources in PJM, it fails to address other key attributes of these plants, such as fuel resilience, an issue PJM is separately reviewing" Mr. Moul noted.

This auction, importantly, tells a story of how electric power customers will be affected by the loss of these major electric power generation assets. Deactivating more than 2,000 megawatts of reliable and resilient power generation from the Ohio plants because they do not receive fair and adequate compensation for the power they produce will produce the effects this auction is showing in the ATSI zone.

The loss of these nuclear power generating plants will have a range of adverse impacts:

- Higher costs for electric power capacity in ATSI, as demonstrated by this auction;
- Need for upgraded and/or new transmission lines to bring replacement power into the constrained region, ATSI – facilities that will earn a guaranteed rate-of-return paid by ratepayers;

- Replacement power that will almost surely come from fossil fuel plants that, unlike the nuclear plants, are not emission free; and from power plants outside Ohio, substantially increasing Ohio's dependence on out-of-state electric power supplies; and
- Loss of large numbers of high-paying jobs and revenue for the communities in which these plants operate.

Chart: FES Plants in PJM 2021-22 Capacity Auction

On Wednesday, May 23, PJM Interconnection announced the results of its Base Residual Auction, or Capacity Auction, for the 2021-22 delivery year. Below are the auction results for FES plants. All capacity values are in UCAP MW terms, meaning that they are discounted to reflect plant outage rates.

Plant	Capacity (UCAP MW)	Cleared? (Y/N)	Clearing Price (MW-day)	Revenue
West Lorain 2-6, A & B	361	Y	\$171.33	\$22.6 million
W.H. Sammis 5-7	1,233	Y	\$171.33	\$77.1 million
Bruce Mansfield 1-3	1,785	N	--	--
Davis-Besse	875	N	--	--
Perry	1,212	N	--	--
Beaver Valley 1 & 2	1,778	N	--	--
Bayshore CT	6	N	--	--
Sammis Diesel	10	N	--	--
Eastlake 6	13	N	--	--

Forward-Looking Statements: This news release includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements include declarations regarding management's intents, beliefs and current expectations. These statements typically contain, but are not limited to, the terms "anticipate," "potential," "expect," "forecast," "target," "will," "intend," "believe," "project," "estimate," "plan" and similar words. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, which may include the following: the ability to experience growth in the Regulated Distribution and Regulated Transmission segments and the effectiveness of our strategy to transition to a fully regulated business profile; the accomplishment of our regulatory and operational goals in

connection with our transmission and distribution investment plans, including, but not limited to, our planned transition to forward-looking formula rates; changes in assumptions regarding economic conditions within our territories, assessment of the reliability of our transmission system, or the availability of capital or other resources supporting identified transmission investment opportunities; the ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, the ability to continue to reduce costs and to successfully execute our financial plans designed to improve our credit metrics and strengthen our balance sheet; success of legislative and regulatory solutions for generation assets that recognize their environmental or energy security benefits, including the Notice of Proposed Rulemaking released by the Secretary of Energy and action by the Federal Energy Regulatory Commission (FERC); the risks and uncertainties associated with the lack of viable alternative strategies regarding the Competitive Energy Services (CES) segment, thereby causing FirstEnergy Solutions Corp. (FES), and likely FirstEnergy Nuclear Operating Company (FENOC), to restructure its substantial debt and other financial obligations with its creditors or seek protection under United States bankruptcy laws and the losses, liabilities and claims arising from such bankruptcy proceeding, including any obligations at FirstEnergy Corp.; the risks and uncertainties at the CES segment, including FES, and its subsidiaries, and FENOC, related to wholesale energy and capacity markets and the viability and/or success of strategic business alternatives, such as pending and potential CES generating unit asset sales, the potential conversion of the remaining generation fleet from competitive operations to a regulated or regulated-like construct or the potential need to deactivate additional generating units, which could result in further substantial write-downs and impairments of assets; the substantial uncertainty as to FES' ability to continue as a going concern and substantial risk that it may be necessary for FES, and likely FENOC, to seek protection under United States bankruptcy laws; the risks and uncertainties associated with litigation, arbitration, mediation and like proceedings, including, but not limited to, any such proceedings related to vendor commitments, such as long-term fuel and transportation agreements; the uncertainties associated with the deactivation of older regulated and competitive units, including the impact on vendor commitments, such as long-term fuel and transportation agreements, and as it relates to the reliability of the transmission grid, the timing thereof; the impact of other future changes to the operational status or availability of our generating units and any capacity performance charges associated with unit unavailability; changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil prices, and their availability and impact on margins; costs being higher than anticipated and the success of our policies to control costs and to mitigate low energy, capacity and market prices; replacement power costs being higher than anticipated or not fully hedged; our ability to

improve electric commodity margins and the impact of, among other factors, the increased cost of fuel and fuel transportation on such margins; the uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including New Source Review litigation, or potential regulatory initiatives or rulemakings (including that such initiatives or rulemakings could result in our decision to deactivate or idle certain generating units); changes in customers' demand for power, including, but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction mandates; economic or weather conditions affecting future sales, margins and operations such as a polar vortex or other significant weather events, and all associated regulatory events or actions; changes in national and regional economic conditions affecting us, our subsidiaries and/or our major industrial and commercial customers, and other counterparties with which we do business, including fuel suppliers; the impact of labor disruptions by our unionized workforce; the risks associated with cyber-attacks and other disruptions to our information technology system that may compromise our generation, transmission and/or distribution services and data security breaches of sensitive data, intellectual property and proprietary or personally identifiable information regarding our business, employees, shareholders, customers, suppliers, business partners and other individuals in our data centers and on our networks; the impact of the regulatory process and resulting outcomes on the matters at the federal level and in the various states in which we do business including, but not limited to, matters related to rates; the impact of the federal regulatory process on FERC-regulated entities and transactions, in particular FERC regulation of wholesale energy and capacity markets, including PJM Interconnection, L.L.C. (PJM) markets and FERC-jurisdictional wholesale transactions; FERC regulation of cost-of-service rates; and FERC's compliance and enforcement activity, including compliance and enforcement activity related to North American Electric Reliability Corporation's mandatory reliability standards; the uncertainties of various cost recovery and cost allocation issues resulting from American Transmission Systems, Incorporated's realignment into PJM; the ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates; other legislative and regulatory changes, including the new federal administration's required review and potential revision of environmental requirements, including, but not limited to, the effects of the United States Environmental Protection Agency's Clean Power Plan, Coal Combustion Residuals regulations, Cross-State Air Pollution Rule and Mercury and Air Toxics Standards programs, including our estimated costs of compliance, Clean Water Act (CWA) waste water effluent limitations for power plants, and CWA 316(b) water intake regulation; adverse regulatory or legal decisions and outcomes with respect to our nuclear operations (including, but not limited to, the revocation or non-renewal of

necessary licenses, approvals or operating permits by the Nuclear Regulatory Commission or as a result of the incident at Japan's Fukushima Daiichi Nuclear Plant); issues arising from the indications of cracking in the shield building at Davis-Besse; changing market conditions that could affect the measurement of certain liabilities and the value of assets held in our Nuclear Decommissioning Trusts, pension trusts and other trust funds, and cause us and/or our subsidiaries to make additional contributions sooner, or in amounts that are larger than currently anticipated; the impact of changes to significant accounting policies; the impact of any changes in tax laws or regulations or adverse tax audit results or rulings; the ability to access the public securities and other capital and credit markets in accordance with our financial plans, the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries; further actions that may be taken by credit rating agencies that could negatively affect us and/or our subsidiaries' access to financing, increase the costs thereof, increase requirements to post additional collateral to support, or accelerate payments under outstanding commodity positions, letters of credit and other financial guarantees, and the impact of these events on the financial condition and liquidity of FirstEnergy Corp. and/or its subsidiaries, specifically FES and its subsidiaries; issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business; and the risks and other factors discussed from time to time in our United States Securities and Exchange Commission (SEC) filings, and other similar factors.

Dividends declared from time to time on FirstEnergy Corp.'s common stock during any period may in the aggregate vary from prior periods due to circumstances considered by FirstEnergy Corp.'s Board of Directors at the time of the actual declarations. A security rating is not a recommendation to buy or hold securities and is subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating. These forward-looking statements are also qualified by, and should be read in conjunction with the other cautionary statements and risks that are included in our filings with the SEC, including but not limited to the most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q. The foregoing review of factors also should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. We expressly disclaim any current intention to update, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.

SOURCE FirstEnergy Solutions

Related Links

<https://fes.com>